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FM AMEMBASSY TEGUCIGALPA  
TO RUEHC/SECSTATE WASHDC PRIORITY 6335  
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE PRIORITY  
RUEHCV/AMEMBASSY CARACAS PRIORITY 0565  
RHEBAAA/DEPT OF ENERGY WASHDC PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RUEAIIA/CIA WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEATRS/DEPT OF TREASURY WASHDC PRIORITY  
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC PRIORITY 0674

C O N F I D E N T I A L SECTION 01 OF 02 TEGUCIGALPA 001192

SIPDIS

SIPDIS

STATE FOR EB/ESC, WHA/EPSC, WHA/PPC, AND WHA/CEN  
STATE FOR D, E, P, AND WHA  
TREASURY FOR DDOUGLASS  
STATE PASS AID FOR LAC/CAM  
NSC FOR DAN FISK

E.O. 12958: DECL: 07/11/2017

TAGS: [ENRG](#) [EPET](#) [HO](#) [PGOV](#) [PINR](#) [PREL](#)

SUBJECT: WHO WILL BREAK FIRST? HONDURAS MAY SOON FACE FUEL SHORTAGES

REF: TEGUCIGALPA 892

Classified By: Classified By: AMB Charles Ford for reasons 1.4 (b) and (d).

1.(C) Summary: Since a January change in the Honduran price setting formula, the four major importers of refined fuel continue to deliver premium gasoline at a loss. Now, a recent change in a regional reference price for diesel fuel threatens to increase their losses. While U.S. transnationals Exxon and Texaco attempt to negotiate with the GOH with little success, Dutch/English transnational Shell may begin to reduce supply. Of most concern is Honduran fuel company DIPPSA, which has the least resources to withstand sustained losses and has recently caused isolated fuel shortages when they could not meet supply agreements. With GOH implemented price freezes only adding to the final burden, the question remains: who will break first? End Summary.

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FUEL IMPORTERS: 12 CENT LOSS ON EACH GALLON  
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12. (C) As reported in reftel, a change in the fuel price setting formula effected last January 15 (reftel) has forced the companies that import refined fuel to operate at a loss, by their estimates up to 12 U.S. cents per gallon. In late May, the Exxon executive for the Americans in a teleconference with President Jose Manuel "Mel" Zelaya asked specifically for at least 6 U.S. cents back in margin, saying he would leave the other 6 U.S. cents "on the table" if Zelaya proved serious about liberalizing the fuels market by the end of the year. (Comment: Strangely, the Exxon reps reported that Zelaya was "out of it" and "completely confused" during the entire call. End Comment).

13. (C) The inconclusive teleconference was followed by a meeting in Florida between Exxon and Presidential advisors Yani Rosenthal and Enrique Flores Lanza, where a near agreement was reached per Exxon reps. Flores Lanza told EconChief on June 11 that he supported the proposal and, after discussions with President Zelaya "the day before," he was optimistic that a deal could be made. Post was informed subsequently that Rosenthal told Exxon reps the same day that

President Zelaya would not approve the deal, and that Exxon and the other importers needed to be more "creative."  
(Comment: Exxon characterized the Florida meeting as a classic Honduran run-around: while quickly sending the President's top advisors to Exxon headquarters appeared impressive on the surface, it masked confusion and uncertainty underneath. Rosenthal's frankness with Exxon is the most surprising, and may be tied to the fact that he may be soon leaving his post. Flores Lanza's comments to EconChief appeared, as usual, to have been only to please without any real substance. End Comment).

14. (C) In a June 28 meeting with EconChief, Exxon representatives reiterated the increasing financial strain that all local importers are now under. A recurring GOH policy of freezing pump prices has forced the importers to shoulder much of the burden ) since February, price freezes have cost Exxon approximately USD 1.7 million. While the GOH has reluctantly paid costs associated with the price freezes in the past, the payments only arrive after many months of discussions. Because of the unprofitable situation, all of the companies are now reevaluating their operations in country.

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WHO WILL BREAK FIRST?  
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15. (C) While Exxon and Texaco are both heavily invested in facilities and infrastructure, Shell, with only a handful of gasoline stations and recent divestitures in the Dominican Republic, may consider reducing their presence or pulling out altogether. (Comment: All three major transnationals have

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indicated to Post that they may reduce operations, but only Shell's comments sound credible. End Comment). Most at risk is Honduran fuel company DIPPSA, which recently completed a 50 percent sale to Dutch fuel trader Trafigura Beheer, B.V. DIPPSA controls almost 40 percent of the premium fuel market, and a failure to supply the market or meet payments for their shipments would throw the market into turmoil. (Comment: DIPPSA owner Henry Arevalo sold 50 percent last year to Trafigura because of the financial strain at that time. Now, with their profit situation worsening and an on-going legal battle with the GOH over use of their terminals, they are undoubtedly feeling a severe financial squeeze. End Comment).

16. (C) A preview of what may happen in the near future was experienced June 28. Citing unspecified supply problems, DIPPSA failed to provide sufficient premium fuel to a multitude of their stations. Consumers quickly shifted to other stations, where demand jumped substantially. Fortunately, demand was met by Texaco and Exxon by hauling fuel from well-stocked positions in the south to cover the spot shortages. While the supply situation has equalized, legal issues continue to follow DIPPSA, mainly accusations that they have not provided for the legal minimum of a 15-day inventory stock.

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PROACTIVE DIALOGUE  
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17. (C) While the importers continue to be attacked in the press by the gasoline station owners (represented by retailer association ADHIPPE), transportation unions, and the Patriotic Coalition (represented by former Ministry of Industry and Commerce minister Juliette Handal), they have failed to develop any positive campaign on their own. With limited success engaging the GOH as an interlocutor, Post organized a first of its kind meeting between the importers and opposition groups July 7 to facilitate conversation and plan a series of similar meetings.

18. (C) The meeting helped to determine that both groups held

misconceptions regarding the fuel delivery process that were not supported by facts. They also agreed that the GOH had played a limited role as an interlocutor and it was worth agreeing on certain principles and providing a solution directly to the government. The talks soured towards the end, however, as a recent Texaco decision to fire a transport company has turned into a major issue and may result in a work stoppage July 12 organized by trucking companies. Despite the shift in focus away from the larger fuel pricing issue, the group agreed to meet again, on July 20.

¶9. (C) COMMENT: With fuel shortages growing and real threats to the fuel supply chain becoming clear, the GOH role as a problem solver remains weak and ineffective. President Zelaya continues to subsidize pump prices while forcing importers to supply at a loss, an unsustainable position that will take but one external shock (a hurricane, a sustained strike, more constriction in supply from Nigeria, etc) to disrupt the already strained supply network. Even without a shock, DIPPSA's precarious position may result in sustained shortages that cannot be met by existing importers.

¶10. (C) COMMENT (CONT): While one potential response to a sustained shortage is for the GOH to send the military in to control DIPPSA's terminal and storage facilities, as has been done recently with state energy company ENEE and the state prison system, that would not solve the import problem. A further scenario is for Zelaya to request immediate aid from Venezuelan President Hugo Chavez through a shipment from his state fuel company PDVSA, though the ability for even a major fuel company to put together and deliver a sizable shipment, particularly over time, is highly questionable. Post will continue to stimulate dialogue between the importers and opposition groups, which may serve as a valuable forum to respond to emergency situations if disaster does strike. END COMMENT.  
WILLIARD